IOWA FINANCE AUTHORITY

APPENDIX E

UNDERWRITING STANDARDS - RENTAL WITHOUT TAX CREDITS

The application will require the applicant to demonstrate that the project is financially feasible and viable using the least amount of HOME funds. Underwriting will be completed by IFA during the review of the application. IFA may adjust the amount of HOME award based upon the underwriting. Underwriting shall be completed for a project prior to the time HOME funds are awarded, and prior to close out of the project. The pro forma is part of the application.

The application will require the applicant to supply sufficient information to allow IFA to determine whether the project is financially feasible during the construction phase and the operational phase of the project. The application will require the applicant to provide information regarding loans, grants, equity contributions, property tax abatements, tax increment financing, enterprise zone benefits and any other type of financing or contributions that are relevant to the economic feasibility of the project and are available to the project.

The following minimum financial underwriting requirements apply to all HOME rental without tax credit projects. Projects that cannot meet the minimum requirements, as determined by IFA, will not receive HOME funds.

1. Escalation of Income & Operating Expenses - Projects will be underwritten with income and operating expenses escalating, with a minimum spread of one percent (1%) required between the income and expense escalators (expenses must increase at least 1% more than income annually.) For example, if income increases by 2% annually, then expenses must escalate by 3%.

2. Vacancy Rate - Projects will be underwritten assuming the following vacancy rate:

12 or greater total units	8% to 10%
Less than 12 total units	8% to 15%

3. Operating Expenses - The proforma must reflect minimum operating expenses of $2,750 per unit per year, not including taxes, reserves and resident support services.

4. Reserves

   A. Operating/Replacement Reserve - The operating reserve will be $350 per unit per year through the HOME compliance period. The reserve shall be used to cover operating deficits and capital expenditures. The applicant must include a narrative explaining how the operating/replacement reserve will be established. Evidence of the functioning reserve must be provided to IFA annually throughout the compliance period.

   B. Rent-Up Reserve - The project must establish a rent-up reserve at the time that the project is completed. HOME funds can be used to fund the rent-up reserve, and this is strongly recommended. The calculation for the minimum rent-up reserve is:

      Gross monthly rent amount for all units x 3 months

   After each HOME unit has been rented at least once to a HOME income eligible household, the amount remaining in the rent-up reserve account shall be used to fund a replacement reserve.

5. Financing Commitment

   A. For all projects proposing private construction and permanent financing, a letter of intent from the lending institution on their letterhead is required. This letter must clearly state the term of the permanent loan, how the interest rate will be indexed and the current rate at the time of the letter, the amortization period, fees, any prepayment penalties, anticipated security interest in the Property and lien position. The letter of intent must extend at least 6 months beyond the Application date due at IFA.

B. For all other sources, except state HOME funds, a commitment for funding must be made in advance. Documentation that specifies the value of the commitment, the purpose the funds can be used for, and time limitations related to the commitment must be provided from the entity making the commitment.

6. Limitations

A. Developer Fees - Developer fees (including overhead and profit and consultant fees) shall not exceed 10%.

B. Construction Contingency Funding - All projects shall have a hard cost construction contingency line item of at least five percent (5%) but no more than ten percent (10%) of total hard costs.*

C. Subsidy Layering Review - HUD is required to undertake subsidy layering reviews of each project receiving HUD housing assistance to ensure that the applicant does not receive excessive government subsidies by combining HUD housing assistance with other forms of federal, State or local assistance.

D. Unit Cost Cap - IFA shall not award HOME funds to a project where the total project costs exceed the 221(d)3 limits, as established by HUD and published by IFA.

The following financial underwriting standards will be taken into account by IFA when determining the financial feasibility of the proposed project.

1. Debt Service Coverage Ratio (DSCR) – A DSCR between 1.20 and 1.50 for the entire HOME compliance period. If the DSCR exceeds 1.50, the applicant must submit an explanation which IFA will take into consideration when reviewing the application.

NOTE: For Rental without tax credit applications, zero percent loans are available with flexible payment terms with the possibility of forgiveness at the end of affordability period.

***Hard Construction Costs** means the following items on the application's budget page minus any EZ Sales Tax Rebate or Energy Rebate:

Site Work
- On-Site Work
- Landscaping
- Other

Construction
- New Building
- Rehabilitation
- Lead Based Paint Interim Control
- Accessory Buildings(s)
- General Requirements
- Builder Overhead
- Builder Profit
- Construction Supervision
- Asbestos Abatement/Containment
- Other

Professional Fees
- Architect Fees – Design
- Architect Fees – Supervision (inspection)
- Engineer Fees